

# Office of Inspector General Corporation for National and Community Service

## AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2004 FINANCIAL STATEMENTS

Audit Report Number 05-01  
October 29, 2004



Prepared by:

COTTON & COMPANY LLP  
333 North Fairfax Street, Suite 401  
Alexandria, Virginia 22314

This report was issued to Corporation management on November 12, 2004. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 12, 2005, and complete its corrective actions by November 12, 2005. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



## OFFICE OF INSPECTOR GENERAL

**Office of Inspector General Summary  
Audit of the Corporation for National and Community Service's  
Fiscal Year 2004 Financial Statements  
Audit Report 05-01**

In accordance with the Government Corporation Control Act (31 U.S.C. §§ 9101-10), the Office of Inspector General (OIG) engaged Cotton and Company LLP to audit the Corporation for National and Community Service's fiscal year 2004 financial statements. This report presents the results of the audit. In summary:

- Cotton and Company's opinion on the financial statements is unqualified. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and results of operations of the Corporation.
- Cotton and Company considered certain matters involving the internal control over financial reporting and its operations to be a reportable condition. For the fourth consecutive year, the Corporation's monitoring of grantee activities is considered to be a reportable condition. However, Cotton and Company does not consider this reportable condition, more specifically described in Exhibit 1, to be a material weakness.
- Cotton and Company found no instances of material noncompliance with laws and regulations that would have a direct and material effect on the financial statements.

We provided a draft of this report to Corporation management for review and comment. The Corporation's response indicates that the clean opinion received reflects the continued hard work over the past two years to improve the Corporation's operations and regain the trust of Congress. The Corporation recognizes that grant monitoring must be improved, and has created a new position, Director of Grants Oversight and Monitoring, to manage grant monitoring across programs. The Corporation's response is presented in its entirety as Appendix A.



# COTTON & COMPANY LLP

auditors ♦ advisors

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Inspector General  
Board of Directors  
Corporation for National and Community Service

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statements of Financial Position of the Corporation for National and Community Service (Corporation) as of September 30, 2004, and September 30, 2003, and the related Statements of Operations and Changes in Net Position, Budgetary Resources, and Cash Flows for the years ended September 30, 2004, and September 30, 2003. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at September 30, 2004, and September 30, 2003, and the results of its operations and changes in its net position, budgetary resources, and cash flows for the years ended September 30, 2004, and September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 29, 2004, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with provisions of laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of our audit, those reports should be read together with this report.

COTTON & COMPANY LLP



Alan Rosenthal, CPA  
Partner

October 29, 2004  
Alexandria, Virginia

**Corporation for National and Community Service**  
**Statements of Financial Position**  
**As of September 30**  
*(dollars in thousands)*

	2004	2003
<b>ASSETS</b>		
Fund Balance with Treasury <i>(Note 2)</i>	\$ 854,370	\$ 743,363
Trust Investments and Related Receivables <i>(Note 3)</i>	337,913	231,880
Advances to Others	66,154	49,279
Accounts Receivable, Net <i>(Note 4)</i>	2,636	2,756
Property and Equipment, Net <i>(Note 5)</i>	962	786
Total Assets	<u>\$ 1,262,035</u>	<u>\$ 1,028,064</u>
<b>LIABILITIES</b>		
Trust Service Award Liability <i>(Note 6)</i>	\$ 237,497	\$ 230,622
Grants Payable	117,250	116,798
Accounts Payable	7,133	7,145
Actuarial FECA Liability <i>(Note 8)</i>	12,401	12,506
Other Liabilities	10,391	9,258
Accrued Annual Leave	3,050	3,086
Advances from Others	187	223
Capital Lease Liability <i>(Note 7)</i>	66	39
Total Liabilities	<u>387,975</u>	<u>379,677</u>
Commitments and Contingencies <i>(Notes 7 and 14)</i>		
<b>NET POSITION</b>		
Unexpended Appropriations		
Obligated	740,769	554,179
Unobligated	48,286	111,174
Cumulative Results of Operations	85,005	(16,966)
Total Net Position <i>(Note 9)</i>	<u>874,060</u>	<u>648,387</u>
Total Liabilities and Net Position	<u>\$ 1,262,035</u>	<u>\$ 1,028,064</u>

*The accompanying notes are an integral part of these financial statements.*

**Corporation for National and Community Service**  
**Statements of Operations and Changes in Net Position**  
**For the Years Ended September 30**  
*(dollars in thousands)*

	2004	2003
<b>REVENUES</b>		
Appropriated Capital Used, excluding Trust Fund	\$ 644,171	\$ 768,005
Appropriations Received by the Trust Fund <i>(Note 10)</i>	205,389	99,350
Interest	8,873	9,693
Revenue from Services Provided	7,329	7,288
Other	539	605
Total Revenues	<u>866,301</u>	<u>884,941</u>
<b>EXPENSES</b>		
AmeriCorps	454,971	541,939
National Senior Service Corps	240,775	241,555
Learn and Serve America	45,155	71,334
Subtotal	<u>740,901</u>	<u>854,828</u>
Congressionally Earmarked Grants	17,210	26,688
DVSA State Grants	1,202	1,211
Office of Inspector General	5,017	4,228
Total Expenses <i>(Note 11)</i>	<u>764,330</u>	<u>886,955</u>
<b>NET OF REVENUES OVER EXPENSES</b>	<u>\$ 101,971</u>	<u>\$ (2,014)</u>
<b>NET POSITION</b>		
Net of Revenues over Expenses	\$ 101,971	\$ (2,014)
Change in Unexpended Appropriations, Net <i>(Note 13)</i>	123,702	(142,026)
Change in Net Position, Net	225,673	(144,040)
Net Position, Beginning Balance	648,387	792,427
Net Position, Ending Balance	<u>\$ 874,060</u>	<u>\$ 648,387</u>

*The accompanying notes are an integral part of these financial statements.*

**Corporation for National and Community Service**  
**Statement of Budgetary Resources**  
**For the Years Ended September 30**  
*(dollars in thousands)*

<b>BUDGETARY RESOURCES</b>	<b>2004</b>	<b>2003</b>
<b>Budget Authority</b>		
Appropriations Received, including Trust Fund	\$ 1,151,820	\$ 900,874
Net Transfers	<u>—</u>	<u>—</u>
<b>Total Budgetary Resources</b>	<u>1,151,820</u>	<u>900,874</u>
 <b>Unobligated Balance</b>		
Beginning of Period	347,495	336,583
Net Transfers	<u>—</u>	<u>—</u>
Subtotal	<u>347,495</u>	<u>336,583</u>
 <b>Spending Authority From Offsetting Collections</b>		
Collected	31,117	160,012
Receivable from Federal Sources	1,061	(794)
Advances Received	(35)	222
Without Advance from Federal Source	(896)	896
Anticipated for Rest of Year Without Advance	<u>1,807</u>	<u>—</u>
Subtotal	<u>33,054</u>	<u>160,336</u>
 <b>Recoveries of Prior Year Obligations</b>		
Actual	3,872	403
Anticipated	<u>—</u>	<u>—</u>
Subtotal	<u>3,872</u>	<u>403</u>
 <b>Temporarily Not Available Pursuant to Public Law</b>	<u>—</u>	<u>—</u>
 <b>Permanently Not Available</b>		
Cancellations of Expired and No-Year Accounts	(25,158)	(12,733)
Enacted Rescissions	<u>(5,553)</u>	<u>(53,143)</u>
Subtotal	<u>(30,711)</u>	<u>(65,876)</u>
 <b>Total Budgetary Resources</b>	<u>\$ 1,505,530</u>	<u>\$ 1,332,320</u>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
<b>Obligations Incurred</b>	\$ 1,350,861	\$ 991,607
 <b>Unobligated Balance:</b>		
Balance, Currently Available	49,346	59,063
Exempt from Apportionment	<u>25,073</u>	<u>226,999</u>
Subtotal	<u>74,419</u>	<u>286,062</u>
 <b>Unobligated Balance Not Available</b>	80,250	54,651
 <b>Total Status of Budgetary Resources</b>	<u>\$ 1,505,530</u>	<u>\$ 1,332,320</u>

*(continued)*

*The accompanying notes are an integral part of these financial statements.*

**Corporation for National and Community Service**  
**Statement of Budgetary Resources**  
**For the Years Ended September 30**  
*(dollars in thousands)*

	2004	2003
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>		
Obligated Balance, Net, Beginning of Period	\$ 629,155	\$ 733,045
 Obligated Balance Transferred	 —	 —
 Obligated Balance, Net, End of Period		
Accounts Receivable	(2,708)	(1,648)
Unfilled Customer Orders from Federal Sources	0	(896)
Undelivered Orders	674,840	505,021
Accounts Payable	365,534	126,678
Obligated Balance, Net, End of Period Total	<u>1,037,666</u>	<u>629,155</u>
 Obligations Total	 <u>\$ 1,666,821</u>	 <u>\$ 1,362,200</u>
 Outlays:		
Disbursements	\$ 938,313	\$ 1,094,992
Collections	<u>(31,081)</u>	<u>(160,234)</u>
Subtotal	907,232	934,758
 Less: Offsetting Receipts	 (17,206)	 (17,913)
 Net Outlays	 <u>\$ 890,026</u>	 <u>\$ 916,845</u>

*The accompanying notes are an integral part of these financial statements.*

**Corporation for National and Community Service**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2004**  
*(dollars in thousands)*

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net of Revenues over Expenses		\$ 101,971
Adjustments Affecting Cash Flow:		
Appropriated Capital Used, excluding Trust Fund	\$ (644,171)	
Appropriations Received by the Trust	(205,389)	
Decrease in Accounts Receivable	120	
Increase in Interest Receivable	(1,720)	
Increase in Advances	<u>(16,875)</u>	
		\$ (868,035)
Increase in Accounts Payable, Other Liabilities and		
Advances from Others	1,085	
Decrease in FECA and Annual Leave Liabilities	(141)	
Increase in Capital Lease Liability	27	
Increase in Trust Liability	6,875	
Increase in Grants Payable	<u>452</u>	
		8,298
Amortization of Premium/Discount on Investments	(1,208)	
Depreciation, Amortization, and Loss on		
Disposition of Assets	717	
Prior Year Expenses as authorized by P.L. 108-11	<u>\$ 63,055</u>	
		\$ 62,564
Total Adjustments		<u>(797,173)</u>
Net Cash Used by Operating Activities		\$ (695,202)

*(continued)*

*The accompanying notes are an integral part of these financial statements.*



**Corporation for National and Community Service**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2004**  
*(dollars in thousands)*

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Property and Equipment	\$ (893)	
Sales of Securities	557,035	
Purchase of Securities	<u>(660,140)</u>	
Net Cash Provided by Investing Activities		\$ (103,998)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Appropriations Received	940,918	
Canceled/Rescinded Appropriations	<u>\$ (30,711)</u>	
Net Cash Provided by Financing Activities		<u>910,207</u>
Net Cash Provided by Operating, Investing, and Financing Activities		111,007
Fund Balance with Treasury, Beginning		<u>743,363</u>
Fund Balance with Treasury, Ending		<u><u>\$ 854,370</u></u>

**Supplemental Disclosure of Cash Flow Information**

Interest Paid	\$ 10
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**Supplemental Schedule of Financing and Investing Activities**

Property and Equipment Acquired Under Capital Lease Obligations	\$ 44
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*The accompanying notes are an integral part of these financial statements.*

**Corporation for National and Community Service**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2003**  
*(dollars in thousands)*

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net of Revenues over Expenses		\$	(2,014)
Adjustments Affecting Cash Flow:			
Appropriated Capital Used, excluding Trust Fund	\$ (768,005)		
Appropriations Received by the Trust	(99,350)		
Decrease in Accounts Receivable	265		
Increase in Interest Receivable	(92)		
Decrease in Advances	<u>9,916</u>		
		\$	(857,266)
Increase in Accounts Payable, Other Liabilities and			
Advances from Others	2,873		
Increase in FECA and Annual Leave Liabilities	962		
Decrease in Commission Liability	(184)		
Decrease in Capital Lease Liability	(36)		
Decrease in Trust Liability	(807)		
Increase in Grants Payable	<u>28,406</u>		
			31,214
Amortization of Premium/Discount on Investments	543		
Depreciation, Amortization, and Loss on			
Disposition of Assets	<u>\$ 1,138</u>		
		\$	<u>1,681</u>
Total Adjustments			<u>(824,371)</u>
Net Cash Used by Operating Activities		\$	(826,385)

*(continued)*

*The accompanying notes are an integral part of these financial statements.*

**Corporation for National and Community Service**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2003**  
*(dollars in thousands)*

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Property and Equipment	\$	0	
Sales of Securities		445,933	
Purchase of Securities		<u>(444,983)</u>	
Net Cash Provided by Investing Activities			\$ 950

**CASH FLOWS FROM FINANCING ACTIVITIES**

Appropriations Received	791,205	
Canceled/Rescinded Appropriations	<u>\$ (65,876)</u>	
Net Cash Provided by Financing Activities		<u>725,329</u>
Net Cash Provided by Operating, Investing, and Financing Activities		(100,106)
Fund Balance with Treasury, Beginning		<u>843,469</u>
Fund Balance with Treasury, Ending		<u><u>\$ 743,363</u></u>

**Supplemental Disclosure of Cash Flow Information**

Interest Paid	\$	8
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**Supplemental Schedule of Financing and Investing Activities**

Property and Equipment Acquired Under Capital Lease Obligations	\$	-
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*The accompanying notes are an integral part of these financial statements.*

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations, and cash flows of the Corporation for National and Community Service (Corporation), as required by the Government Corporation Control Act (31 USC 9106) and by the National and Community Service Act of 1990, as amended (42 USC 12651). In addition, the Corporation prepares a Statement of Budgetary Resources, which reports on the status of appropriated funds, as one of its principal financial statements as required by the President's February 27, 2004 Executive Order on National and Community Service Programs. These financial statements have been prepared from the books and records of the Corporation. The Statements of Financial Position, Operations and Changes in Net Position, Statement of Budgetary Resources, and Cash Flows have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to Federal governmental entities and include the Corporation's activities related to providing grants and education awards to eligible participants. Additionally, the Statement of Budgetary Resources has been prepared in accordance with guidance prescribed in Office of Management and Budget (OMB) Memorandum 01-09, *Form and Content of Agency Financial Statements*, which constitutes generally accepted accounting principles for Federal governmental entities as specified by the AICPA's Statement on Auditing Standards 69 (as amended), *The Meaning of Presents Fairly in Conformity With Generally Accepted Accounting Principles*. The Corporation is not subject to income tax.

The principal financial statements of the Corporation are the:

- Statement of Financial Position;
- Statement of Operations and Changes in Net Position;
- Statement of Budgetary Resources; and
- Statement of Cash Flows.

The notes to the financial statements are considered an integral part of the financial statements.

#### B. Reporting Entity

The Corporation was created by the National and Community Service Trust Act of 1993 (Public Law 103-82, 42 USC 12651). The Corporation provides grants and other incentives to States, local municipalities, and not-for-profit organizations to help communities meet critical challenges in the areas of education, public safety, human needs, and the environment through volunteer service. The Corporation oversees three national service initiatives:

- **AmeriCorps** is the national service program that annually engages Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service. AmeriCorps includes *State, National, Tribes & Territories* (State/National); *National Civilian Community Corps* (NCCC); and *Volunteers In Service To America* (VISTA) programs.
- **The National Senior Service Corps** is a network of people age 55 and older who participate in the *Foster Grandparent Program*, the *Senior Companion Program*, and the *Retired and Senior Volunteer Program*. These programs tap the experience, skills, talents, and creativity of America's seniors.
- **Learn and Serve America** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship.

Together, these initiatives promote the ethic of service and help solve critical community problems in every State, many Indian tribes, and most U.S. territories.

#### C. Budgets and Budgetary Accounting

The activities of the Corporation are primarily funded through two separate appropriation bills. One is the Labor/Health and Human Services bill, which funds Domestic Volunteer Service Act (DVSA) programs. The DVSA appropriation is available for obligation by the Corporation for one fiscal year only.

The second is the Veterans Affairs, Housing and Urban Development, and Independent Agencies bill, which funds National and Community Service Act (NCSA) programs. The NCSA appropriation is available for obligation by the Corporation over two fiscal years except for the Salary and Expense (S&E), which is available for one year.

Both the DVSA and the NCSA appropriations fund a part of the Corporation's costs for administrative operations. In addition, part of the NCSA appropriations are provided on a no-year basis for the National Service Trust (the Trust), a fund within the Corporation primarily used to provide education awards to eligible participants. The Trust provides awards for AmeriCorps members under AmeriCorps\*State and National, Tribes and Territories, AmeriCorps\*NCCC, and AmeriCorps\*VISTA.

#### **D. Basis of Accounting**

Transactions are recorded in the accounting system on an accrual basis and a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Appropriations are considered earned for the Corporation's National Service Trust Fund and are recognized as revenue when received in the Trust Fund.

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. Thus, the Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows differ from the Statement of Budgetary Resources and other financial reports submitted pursuant to OMB directives for the purpose of providing information on how budgetary resources were made available and monitoring and controlling the use of the Corporation's budgetary resources.

#### **E. Fund Balance with Treasury**

The Corporation does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Fund Balance with Treasury represents annual, multi-year, and no-year funds, which are maintained in appropriated and trust funds that are available to pay current and future commitments.

Funds maintained in the National Service Trust are restricted for use in paying service awards earned by eligible participants as well as interest forbearance, and are not available for use in the current operations of the Corporation.

The majority of the funds received from individuals and organizations in the form of gifts and donations for the support of service projects are restricted for a particular use.

#### **F. Trust Investments and Related Receivables**

By law, the Corporation invests funds, which have been transferred to the Trust, only in interest-bearing Treasury obligations of the United States. These Treasury obligations are referred to as market-based specials, which are similar to government securities sold on the open market, and consist of Treasury notes, bonds, bills and one-day certificates.

The Corporation classifies these investments as held-to-maturity at the time of purchase and periodically reevaluates such classification. Securities are classified as held-to-maturity when the Corporation has the positive intent and ability to hold securities to maturity. Held-to-maturity securities are stated at cost with corresponding premiums or discounts amortized over the life of the investment to interest income. Premiums and discounts are amortized using the effective interest method.

Interest receivable represents amounts earned but not received on investments held at year-end. Prepaid interest is the amount of interest earned on a security since the date of its last interest payment up to the date the security is purchased by the Corporation. Such interest, if any, at year-end is included in the interest receivable balance.

#### **G. Advances to Others**

The Corporation advances funds, primarily in response to grantee drawdown requests, to facilitate their authorized national and community service and domestic volunteer service activities. The cash payments to grantees, in excess of amounts earned under the terms of the grant agreements, are accounted for as advances. At the end of the fiscal

year, the total amount advanced to grantees is compared with the Corporation-funded amount earned by the grantees. Grantee expenses are determined from reports submitted by the grantees. For those grantees with advances exceeding expenses, the aggregate difference is reported as the advance account balance.

#### **H. Accounts Receivable**

Accounts receivable represents amounts due to the Corporation primarily under Federal and non-Federal reimbursable agreements, grantee audit resolution determinations, and outstanding travel advances due from employees. These amounts are reduced by an allowance for uncollectible accounts based on the age of each past due account.

#### **I. Property and Equipment**

The Corporation capitalizes property and equipment at historical cost for acquisitions of \$10 thousand or more, with an estimated useful life that extends beyond the year of acquisition. The assets reported include telephone equipment, computer systems equipment, copiers, computer software, furniture, and assets under capital leases. These assets are depreciated (or amortized) on a straight-line basis over estimated useful lives ranging from two to 10 years, using the half-year convention. Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred.

#### **J. Trust Service Award Liability**

The Trust service award liability represents unpaid earned, and expected to be earned, education awards and eligible interest forbearance costs, which are expected to be used. These amounts relate to participants who have completed service or are currently enrolled in the program and are expected to earn an award, based on the Corporation's historical experience.

#### **K. Grants Payable**

Grants are made to nonprofit organizations, educational institutions, states, municipalities, and other external organizations. Grants become budgetary obligations, but not liabilities, when they are awarded. At the end of each fiscal year, the Corporation reports the total amount of unreimbursed authorized grantee expenses, earned under the terms of grant agreements, as grants payable.

#### **L. Accounts Payable**

The Corporation records as liabilities all amounts that are likely to be paid as a direct result of a transaction or event that has already occurred. Accounts payable represents amounts due to both Federal and non-Federal entities for goods and services received by the Corporation, but not paid for at the end of the fiscal year.

#### **M. Actuarial FECA Liability**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Corporation employees under FECA are administered by the Department of Labor (DOL) and later billed to the Corporation. The Corporation's actuarial liability for workers' compensation includes costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

#### **N. Other Liabilities**

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits; VISTA stipends; and the portion of the liability for Federal Employees' Compensation Act charges incurred and billed but unpaid.

#### **O. Accrued Annual Leave**

Annual leave is accrued as a liability based on amounts earned but not used as of the fiscal year-end. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates and leave balances. Annual leave is funded from current appropriations when used. As unused annual leave is used in the future, financing will

be obtained from appropriations current at that time. Sick leave and other types of non-vested leave are expensed when used.

#### **P. Advances from Others**

Advances from others consist of advances from other government agencies related to interagency agreements the Corporation entered into to provide services to those agencies.

#### **Q. Net Position**

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated and warranted to the Corporation that are still available for expenditure as of the end of the fiscal year. Cumulative results of operations represent the net differences between revenues and expenses from the inception of the Corporation.

#### **R. Revenues**

##### *Appropriated Capital Used*

The Corporation obtains funding for its program and operating expenses through annual and multi-year appropriations. Appropriations are recognized on an accrual basis at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations such as earned but unused annual leave. Appropriations expended for property and equipment are recognized as used when the property is purchased. Funds not used for eligible expenses within the allowed time must be returned to Treasury. Appropriations received for the Corporation's Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible education service award purposes.

##### *Interest*

Interest income is recognized when earned. Treasury notes and bonds pay interest semiannually, based on the stated rate of interest. Interest earned on Treasury bills is recognized at maturity. Interest income is adjusted by amortization of premiums and discounts using the effective interest method.

##### *Revenue from Services Provided*

The Corporation also receives income from reimbursable service agreements that is recorded as revenue from services provided. Revenue from services provided is recognized when earned, i.e., goods have been delivered or services rendered.

##### *Other Revenue*

Other revenue consists of gifts and donations for the support of service projects from individuals and organizations.

#### **S. Retirement Benefits**

The Corporation's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, elected to join FERS and Social Security or remained in the CSRS.

For employees covered by CSRS, the Corporation contributes 8.51 percent of their gross pay towards retirement. For those employees covered by FERS, the Corporation contributes 11.50 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Corporation contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum Corporation contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either the Corporation's automatic or matching contributions.

The Corporation made retirement contributions of \$791 thousand and \$668 thousand to the CSRS Plan, and \$5.72 million and \$6.09 million to the FERS and TSP Plans in fiscal years 2004 and 2003, respectively.

## T. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## NOTE 2 – FUND BALANCE WITH TREASURY

U.S. Government cash is accounted for on an overall consolidated basis by the U.S. Department of Treasury. The Fund Balance with Treasury line on the Statement of Financial Position consists of the following:

- **Appropriated Funds** – Appropriated funds are received through congressional appropriations to provide financing sources for the Corporation's programs on an annual, multi-year, and no-year basis. The funds are warranted by the United States Treasury and apportioned by the Office of Management and Budget.
- **Trust Funds** – Trust Funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the Corporation's Trust Fund may be expended for the purpose of providing an education award or interest forbearance payment and must always be paid directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant, as well as awards under the President's Freedom Scholarship Program.
- **Gift Funds** – Gift Funds are funds received from individuals and organizations as donations in furtherance of the purposes of the national service laws.

Fund Balance with Treasury as of September 30 (dollars in thousands)						
2004			2003			
Type	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Appropriated Funds	\$850,437	\$ –	\$850,437	\$742,565	\$ –	\$742,565
Trust Funds	–	3,120	3,120	–	146	146
Gift Funds	6	807	813	15	637	652
<b>Total</b>	<b><u>\$850,443</u></b>	<b><u>\$3,927</u></b>	<b><u>\$854,370</u></b>	<b><u>\$742,580</u></b>	<b><u>\$783</u></b>	<b><u>\$743,363</u></b>

## NOTE 3 – TRUST INVESTMENTS AND RELATED RECEIVABLES

The composition of Trust Investments and Related Receivables at September 30 is as follows:

Trust Investments and Related Receivables as of September 30 (dollars in thousands)		
	2004	2003
Investments, Carrying Value	\$334,575	\$230,262
Investment and Interest Receivable	3,338	1,618
<b>Total</b>	<b><u>\$337,913</u></b>	<b><u>\$231,880</u></b>



Amortized Cost and Fair Value of Investment Securities as of September 30 (dollars in thousands)								
	2004				2003			
Securities	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
Notes	\$292,655	\$ 27	\$ –	\$292,682	\$175,244	\$5,648	\$ –	\$180,892
Bills	34,274	68		34,342	47,019	4	–	47,023
Bonds	7,646	198		7,844	7,999	570	–	8,569
<b>Total</b>	<b><u>\$334,575</u></b>	<b><u>\$293</u></b>	<b><u>\$ –</u></b>	<b><u>\$334,868</u></b>	<b><u>\$230,262</u></b>	<b><u>\$6,222</u></b>	<b><u>\$ –</u></b>	<b><u>\$236,484</u></b>

At September 30, 2004, the notes held at year-end had an interest rate range of 1.63% to 7.88% and an outstanding maturity period of approximately one day to five years. The interest rate on the bond was 10.75% and had a maturity period of approximately one year. The bills held at year-end had an interest rate range of 1.35% to 1.77% and were all due to mature within 149 days. The par values of these bills range from \$2 million to \$5 million.

As required by the Strengthen AmeriCorps Program Act, beginning in fiscal 2003 the Corporation has set aside in reserve a portion of the funds appropriated to the Trust in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. As of September 30, 2004, \$19.9 million of the Corporation's investment account has been set aside for this reserve.

Investments held at September 30 mature according to the following schedule:

Maturation of Securities Held as of September 30 (dollars in thousands)				
	2004		2003	
Held-to-Maturity Securities	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$161,584	\$161,931	\$156,108	\$157,360
Due after 1 year up to 5 years	172,991	172,937	74,154	79,124
<b>Total</b>	<b><u>\$334,575</u></b>	<b><u>\$334,868</u></b>	<b><u>\$230,262</u></b>	<b><u>\$236,484</u></b>

**NOTE 4 – ACCOUNTS RECEIVABLE, NET**

Accounts Receivable as of September 30 (dollars in thousands)		
	2004	2003
Accounts receivable	\$3,284	\$3,248
Less: allowance for loss on receivables	648	492
<b>Accounts Receivable, Net</b>	<b><u>\$2,636</u></b>	<b><u>\$2,756</u></b>

**NOTE 5 – PROPERTY AND EQUIPMENT, NET**

General Property and Equipment as of September 30 (dollars in thousands)							
2004				2003			
Major Class	Service Life (Years)	Cost	Less: Accumulated Depreciation	Net Book Value	Cost	Less: Accumulated Depreciation	Net Book Value
Equipment	3-10	\$2,916	\$2,017	\$899	\$1,998	\$1,676	\$322
Capital leases	3-5	92	29	63	164	123	41
ADP software	2	5,042	5,042	0	5,042	4,619	423
<b>Total</b>		<b><u>\$8,050</u></b>	<b><u>\$7,088</u></b>	<b><u>\$962</u></b>	<b><u>\$7,204</u></b>	<b><u>\$6,418</u></b>	<b><u>\$786</u></b>

**NOTE 6 – SERVICE AWARD LIABILITY – NATIONAL SERVICE TRUST**

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for educational expenses at qualified educational institutions. The awards, which are available for use for a period of up to seven years after the benefit has been earned, are paid from the National Service Trust. The Trust also pays forbearance interest on qualified student loans during the period members perform community service as well as awards under the President's Freedom Scholarship Program. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect the fact that some eligible participants may not use these benefits. The service award liability was composed of the following as of September 30:

Service Award Liability as of September 30 (dollars in thousands)		
	2004	2003
Education awards	\$814,176	\$707,919
Interest forbearance	26,957	24,371
Presidential Freedom Scholarship Program	17,499	14,200
Total estimated service award liability	858,632	746,490
Less: cumulative awards paid	621,135	515,868
<b>Total</b>	<b><u>\$237,497</u></b>	<b><u>\$230,622</u></b>

The net service award liability as of September 30, 2004, increased by approximately \$6.87 million from the net service award liability as of September 30, 2003. This change was largely due to new member enrollments and an increase in the number of members still serving during the year.

**NOTE 7 – CAPITAL AND OPERATING LEASES****A. Capital Leases**

The Corporation has entered into lease agreements for copy machines. These leases vary from 3 to 5 year terms and are deemed to be capital leases. The costs of the copiers have been recorded as property and equipment (also see Note 5). The following is a schedule by year of the future minimum payments under these leases:

<b>Capital Leases Future Minimum Due as of September 30</b> <i>(dollars in thousands)</i>		
	<b>2004</b>	<b>2003</b>
Fiscal Year 2004	\$ –	\$ 13
Fiscal Year 2005	26	12
Fiscal Year 2006	25	11
Fiscal Year 2007	15	9
Fiscal Year 2008	7	–
Fiscal Year 2009	<u>5</u>	<u>–</u>
Total future minimum lease payments	78	45
Less: amounts representing interest	12	6
<b>Total</b>	<b><u>\$66</u></b>	<b><u>\$39</u></b>

**B. Operating Leases**

The Corporation leases office space through the General Services Administration (GSA). GSA charges the Corporation a Standard Level Users Charge that approximates commercial rental rates for similar properties. NCCC also leases housing facilities for its campuses. Additionally, the Corporation leases motor vehicles on an annual basis through GSA under an Interagency Fleet Management Service agreement for the National Civilian Community Corps. Commitments of the Corporation for future rental payments under operating leases at September 30 are as follows:

<b>Estimated Operating Lease Commitments as of September 30</b> <i>(dollars in thousands)</i>								
	<b>2004</b>				<b>2003</b>			
<b>Fiscal Year</b>	<b>Facilities Space</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>	<b>Facilities Space</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
2004	\$ –	\$ –	\$ –	\$ –	7,070	1,131	172	8,373
2005	6,408	1,111	196	7,715	7,363	1,162	174	8,699
2006	6,614	1,151	203	7,968	7,668	1,193	176	9,037
2007	6,827	1,190	211	8,228	7,985	1,226	178	9,389
2008	7,047	1,231	219	8,497	8,315	1,261	181	9,757
2009	7,274	1,274	227	8,775	–	–	–	–
<b>Total</b>	<b><u>\$34,170</u></b>	<b><u>\$5,957</u></b>	<b><u>\$1,056</u></b>	<b><u>\$41,183</u></b>	<b><u>\$38,401</u></b>	<b><u>\$5,973</u></b>	<b><u>\$881</u></b>	<b><u>\$45,255</u></b>

**NOTE 8 – WORKERS' COMPENSATION**

The Corporation's actuarial liability for future workers' compensation benefits (FECA) was \$12.4 million and \$12.5 million as of September 30, 2004 and 2003, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

#### **NOTE 9 – NET POSITION**

The reported net position consists of unexpended appropriations and cumulative results of operations (cumulative results of operations represents the differences between revenues and expenses since the Corporation's inception). Component balances are separately maintained for the Gift Fund, Trust Fund and Appropriated Fund.

<b>Net Position by Fund Balance Components</b> <i>(dollars in thousands)</i>				
<b>As of September 30, 2004</b>				
	<b>Gift Fund</b>	<b>Trust Fund</b>	<b>Appropriated Fund</b>	<b>Total</b>
Unexpended appropriations	\$ –	\$ –	\$789,055	\$789,055
Cumulative results of operations	867	103,551	(19,413)	85,005
<b>Total Net Position</b>	<b><u>\$867</u></b>	<b><u>\$103,551</u></b>	<b><u>\$769,642</u></b>	<b><u>\$874,060</u></b>

<b>Net Position by Fund Balance Components</b> <i>(dollars in thousands)</i>				
<b>As of September 30, 2003</b>				
	<b>Gift Fund</b>	<b>Trust Fund</b>	<b>Appropriated Fund</b>	<b>Total</b>
Unexpended appropriations	\$ –	\$ –	\$665,353	\$665,353
Cumulative results of operations	650	1,421	(19,037)	(16,966)
<b>Total Net Position</b>	<b><u>\$650</u></b>	<b><u>\$1,421</u></b>	<b><u>\$646,316</u></b>	<b><u>\$648,387</u></b>

#### **NOTE 10 – APPROPRIATIONS RECEIVED BY THE TRUST FUND**

Fiscal 2004 appropriations received by the Trust Fund were \$205.4 million, composed of a \$130 million Trust appropriation (less \$767 thousand Trust portion of the rescission to NCSA pursuant to the Miscellaneous Appropriations and Offsets Act of 2004); a \$63.1 million deficiency appropriation included in the 2003 Emergency Wartime Supplemental Appropriation Act (P.L. 108-11) which was received in fiscal 2004; and \$13.1 million transferred from program funds pursuant to the 2004 Consolidated Appropriations Act (P.L. 108-199). The Trust portion of the NCSA rescission was transferred back to NCSA, reducing the net amount of appropriations received by the Trust Fund during fiscal 2004. Fiscal 2003 appropriations received by the Trust Fund were \$99.35 million (\$100 million less \$650 thousand Trust portion of the rescission to NCSA per Public Law 108-7). The Trust portion of the NCSA rescissions were transferred back to NCSA, reducing the net amount of appropriations received by the Trust Fund during each fiscal year.

#### **NOTE 11 – EXPENSES**

Using an appropriate cost accounting methodology, the Corporation's expenses have been allocated among its major programs:

**AmeriCorps** is the national service program that annually engages Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service. AmeriCorps includes *State, National, Tribes & Territories* (State/National); *National Civilian Community Corps* (NCCC); and *Volunteers In Service To America* (VISTA) programs. The State/National sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations. The NCCC sub-program includes direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations. The VISTA sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations.

**The National Senior Service Corps** (NSSC) is a network of people age 55 and older who participate in the *Foster Grandparent Program* (FGP), the *Senior Companion Program* (SCP), and the *Retired and Senior Volunteer Program* (RSVP). These programs tap the experience, skills, talents, and creativity of America's seniors. The

NSSC responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs for RSVP, FGP, and SCP. Costs for each sub-program are reported on separately in the table.

**Learn and Serve America** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship. The Learn & Serve responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs, for the Learn and Serve America Program, the President's Student Service Challenge, and National Service Leader Schools. The President's Freedom Scholarships are a component of the National Service Award expense line item.

#### Other Program Costs

The National Service Award line item consists of the Corporation's estimated expense for education awards based on the increase in its service award liability during the year, interest forbearance costs on qualified student loans during the period members perform community service, as well as disbursements for the Presidential Freedom Scholarship Program. No indirect costs have been allocated to this line item.

The Corporation's annual appropriation includes various Congressionally Earmarked Grants. In addition, the Corporation has reimbursable agreements with state agencies whereby the Corporation awards and administers grants to a list of grantees selected and funded by the State. No indirect costs have been allocated to these grants.

The Office of Inspector General (OIG) receives a separate appropriation. No indirect costs have been allocated to the OIG.

The largest component of total expense is grant funds expended.

<b>Components of Grant Funds Expended for the years ended September 30</b> <i>(dollars in thousands)</i>		
	<b>2004</b>	<b>2003</b>
Domestic Volunteer Service Act Programs	\$250,490	\$231,442
National and Community Service Act Programs	213,386	352,446
Earmarked Grants		
Congressionally Earmarked Grants	\$17,210	\$26,688
DVSA State Grants	<u>1,202</u>	<u>1,211</u>
Total Earmarked Grants	18,412	27,899
<b>Total Grants Expense</b>	<b><u>\$482,288</u></b>	<b><u>\$611,787</u></b>

<b>Expenses by Major Responsibility Segment for the years ended September 30</b> <i>(dollars in thousands)</i>		
	<b>2004</b>	<b>2003</b>
<b>AmeriCorps</b>		
State, National, Tribes & Territories (State/National)	\$294,255	\$390,991
National Civilian Community Corps (NCCC)	33,056	36,640
Volunteers In Service To America (VISTA)	<u>127,660</u>	<u>114,308</u>
Subtotal	\$454,971	\$541,939
<b>National Senior Service Corps</b>		
Retired and Senior Volunteer Program (RSVP)	66,312	65,090
Foster Grandparent Program (FGP)	122,797	126,378
Senior Companion Program (SCP)	<u>\$ 51,666</u>	<u>\$ 50,087</u>
Subtotal	240,775	241,555
<b>Learn and Serve America</b>	45,155	71,334
<b>Total Earmarked Grants</b>	18,412	27,899
<b>Office of Inspector General (OIG)</b>	5,017	4,228
<b>Total Expenses</b>	<b><u>\$764,330</u></b>	<b><u>\$886,955</u></b>

Expenses by Type and Subprogram for the year ended September 30, 2004 (dollars in thousands)										
Type	AmeriCorps			National Senior Service Corps						
	State/ National	NCCC	VISTA	RSVP	FGP	SCP	Learn & Serve	Earmarked Grants	OIG	Total
<b>Grant and Related Expense</b>										
Grant funds expended	\$175,981	\$ -	\$ 28,836	\$60,667	\$113,334	\$47,653	\$37,405	\$18,412	\$ -	\$482,288
VISTA & NCCC stipends & benefits	-	7,960	62,488	-	-	-	-	-	-	70,448
Service award expense	89,674	3,382	15,775	-	-	-	3,299	-	-	112,130
<b>Total Grant and Related Expense</b>	<b>265,655</b>	<b>11,342</b>	<b>107,099</b>	<b>60,667</b>	<b>113,334</b>	<b>47,653</b>	<b>40,704</b>	<b>18,412</b>	<b>-</b>	<b>664,866</b>
<b>Administrative Expense</b>										
Federal employee salaries & benefits	17,716	9,903	7,185	3,198	5,973	2,506	2,959	-	2,337	51,777
Travel & transportation	822	2,933	5,564	197	341	138	130	-	76	10,201
Rent, communications, & utilities	2,230	2,011	784	421	787	331	242	-	265	7,071
Program analysis & evaluation	552	501	501	159	294	124	376	-	-	2,507
Printing & reproduction	58	101	41	31	37	10	9	-	-	287
Other services	6,323	5,403	5,944	1,441	1,663	755	576	-	2,296	24,401
Supplies & materials	297	711	354	81	154	64	54	-	43	1,758
Depreciation & amortization	305	24	113	64	120	50	41	-	-	717
Bad debt	154	4	49	33	61	26	20	-	-	347
Other	143	123	26	20	33	9	44	-	-	398
<b>Total Administrative Expense</b>	<b>28,600</b>	<b>21,714</b>	<b>20,561</b>	<b>5,645</b>	<b>9,463</b>	<b>4,013</b>	<b>4,451</b>	<b>-</b>	<b>5,017</b>	<b>99,464</b>
<b>Total Expenses by Type</b>	<b>\$294,255</b>	<b>\$33,056</b>	<b>\$127,660</b>	<b>\$66,312</b>	<b>\$122,797</b>	<b>\$51,666</b>	<b>\$45,155</b>	<b>\$18,412</b>	<b>\$5,017</b>	<b>\$764,330</b>

Expenses by Type for the year ended September 30, 2003 (dollars in thousands)										
Type	AmeriCorps			National Senior Service Corps					Total	
	State/ National	NCCC	VISTA	RSVP	FGP	SCP	Learn & Serve	Earmarked Grants		OIG
<b>Grant and Related Expense</b>										
Grant funds expended	\$270,576	\$ -	\$ 25,742	\$60,482	\$117,698	\$46,624	\$62,766	\$27,899	\$ -	\$611,787
VISTA & NCCC stipends & benefits	-	8,280	58,254	-	-	-	-	-	-	66,534
Service award expense	87,674	5,617	13,392	-	-	-	2,895	-	-	109,578
<b>Total Grant and Related Expense</b>	<b>358,250</b>	<b>13,897</b>	<b>97,388</b>	<b>60,482</b>	<b>117,698</b>	<b>46,624</b>	<b>65,661</b>	<b>27,899</b>	<b>-</b>	<b>787,899</b>
<b>Administrative Expense</b>										
Federal employee salaries & benefits	20,208	9,523	5,876	2,778	5,392	2,147	3,568	-	1,808	51,300
Travel & transportation	769	3,128	5,292	113	218	95	218	-	56	9,890
Rent, communications, & utilities	2,482	2,210	591	354	688	273	410	-	283	7,291
Program analysis & evaluation	1,518	-	-	151	294	117	367	-	-	2,447
Printing & reproduction	103	113	221	79	66	32	14	-	-	628
Other services	6,328	6,104	4,407	897	1,575	621	827	-	2,046	22,808
Supplies & materials	230	1,548	280	62	118	48	70	-	32	2,388
Depreciation & amortization	568	12	123	92	178	71	95	-	-	1,139
Bad debt	193	4	41	31	61	24	32	-	-	386
Other	342	101	89	51	89	35	72	-	3	779
<b>Total Administrative Expense</b>	<b>32,741</b>	<b>22,743</b>	<b>16,920</b>	<b>4,608</b>	<b>8,680</b>	<b>3,463</b>	<b>5,673</b>	<b>-</b>	<b>4,228</b>	<b>99,056</b>
<b>Total Expenses by Type</b>	<b>\$390,991</b>	<b>\$36,640</b>	<b>\$114,308</b>	<b>\$65,090</b>	<b>\$126,378</b>	<b>\$50,087</b>	<b>\$71,334</b>	<b>\$27,899</b>	<b>\$4,228</b>	<b>\$886,955</b>

**NOTE 12 – NATIONAL SERVICE AWARD EXPENSE**

Members participating in the Trust programs are eligible to earn a service award to pay for qualified education expenses. The Trust also pays interest forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2004 and 2003, respectively, has been adjusted to reflect the fact that earned awards are not always used.

<b>National Service Award Expense for the years ended September 30</b> <i>(dollars in thousands)</i>		
	<b>2004</b>	<b>2003</b>
Estimated education awards	\$106,245	\$104,581
Estimated interest forbearance	2,586	2,102
President's Freedom Scholarship Program	3,299	2,895
<b>National Service Award Expense</b>	<b><u>\$112,130</u></b>	<b><u>\$109,578</u></b>

**NOTE 13 – INCREASE/(DECREASE) IN UNEXPENDED APPROPRIATIONS, NET**

<b>Increase/(Decrease) in Unexpended Appropriations, Net as of September 30</b> <i>(dollars in thousands)</i>		
	<b>2004</b>	<b>2003</b>
<b>Increases:</b>		
Appropriations received, net of trust	\$ 940,918	\$791,205
Prior year deficiency appropriation	<u>63,055</u>	<u>—</u>
<b>Total Increases</b>	<b>1,003,973</b>	<b>791,205</b>
<b>Decreases:</b>		
Appropriated capital used, net of trust	(644,171)	(768,005)
Appropriations received by trust	(205,389)	(99,350)
Rescinded appropriations, net of trust	(5,553)	(53,143)
Canceled appropriations	<u>(25,158)</u>	<u>(12,733)</u>
<b>Total Decreases</b>	<b>(880,271)</b>	<b>(933,231)</b>
<b>Increase/(Decrease) in Unexpended Appropriations, Net</b>	<b><u>\$ 123,702</u></b>	<b><u>\$(142,026)</u></b>

**NOTE 14 – CONTINGENCIES*****Contingencies***

The Corporation is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Corporation. In the opinion of the Corporation's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact the financial statements of the Corporation.

***Judgment Fund***

Certain legal matters to which the Corporation is named a party may be administered and, in some instances, litigated and paid by other Federal agencies. Generally, amounts paid in excess of \$2.5 thousand for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management does not expect that any liability or expense that might ensue would be material to the Corporation's financial statements.



***NOTE 15 – RECLASSIFICATION OF EXPENSES***

During fiscal 2004 the Corporation began sub-allocating costs within each of its responsibility segments (AmeriCorps, National Senior Service Corps, and Learn and Serve America) to their major sub-programs. These immaterial reclassifications were for presentation purposes only and did not change total expenses. However, administrative costs allocated to each responsibility segment in the fiscal 2003 financial statements were adjusted as a result of the revised methodology.

# COTTON & COMPANY LLP

auditors ♦ advisors

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Inspector General  
Board of Directors  
Corporation for National and Community Service

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing the September 30, 2004, audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal control, determining if internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide assurance on the Corporation's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with assertions by management in the financial statements. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted one matter, described in Exhibit 1, involving internal control over financial reporting and its operation that we consider to be a reportable condition. We do not consider this reportable condition to be a material weakness. The status of prior-year reportable conditions is reported in Exhibit 2.

We also noted other matters involving internal control and its operation that we will report to Corporation management in our management letter, which will be issued as OIG Audit Report 05-02.

We have provided a draft of this report to the Corporation. The Corporation's response to our report is included as Appendix A.

As required by the Government Corporation Control Act, this report is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, the Corporation, and the Inspector General. It is not intended for, and should not be used by, anyone other than these specified parties.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Alan Rosenthal", with a long, sweeping horizontal line extending to the right.

Alan Rosenthal, CPA  
Partner

October 29, 2004  
Alexandria, Virginia

**Exhibit 1**  
**Corporation for National and Community Service**  
**Reportable Condition**  
**September 30, 2004**

**Grants Management**

The Corporation for National and Community Service (Corporation) awards National and Community Service Act (NCSA) and Domestic Volunteer Service Act (DVSA) grants to State and local governments, institutions of higher education, and other nonprofit organizations. The Corporation expends the majority of its appropriated funds on grants, and grant activities result in the most significant components of the Corporation's financial statements. It is critical that the Corporation monitor grantee activity closely to ensure that grantees are complying with applicable laws and regulations related to the administration of grant awards. Grantees are required to expend funds for allowable costs and to provide periodic reports to the Corporation to demonstrate programmatic financial compliance with the terms of their respective grant agreements. As part of its grant monitoring program, the Corporation conducts site visits to ensure that grantees are complying with their grant agreements, and that State commissions are performing their prescribed duties.

The following weaknesses were noted in the Corporation's internal control over grants management.

**Improvement Needed In Monitoring Grantee Activities**

The Corporation has established formal grantee monitoring procedures that include periodic site visits to grantees; a process for obtaining, reviewing, and issuing management decisions on audit findings reported by the OIG, as well as by non-federal auditors in OMB Circular A-133 single audit reports; training conferences for grantee personnel; open lines of communication between program managers and grantees; and a grant closeout process. For DVSA grants, the Corporation utilizes the Senior Corps Compliance Monitoring Handbook. For NCSA grants, the State Commission Administrative Standards review is the primary tool for monitoring State commission grantees. The Corporation also has a separate monitoring tool for National Direct grantees.

While it was noted that the various program offices have each taken steps to implement the recommendations discussed in the prior year's internal control report, the Corporation's monitoring activities require further improvement in order to provide adequate controls over grantee activities. The prior year's reportable condition noted a number of instances where the Corporation was not adhering to its own policies. It was not performing site visits and other monitoring efforts on a timely basis, and the Corporation did not ensure that grantees submitted all required programmatic and fiscal reports on a timely basis. The recommendations to address these findings included the reevaluation of policies and procedures for conducting monitoring visits and the implementation of a risk assessment approach to selecting grantees for monitoring visits.

During the past fiscal year, the program offices have developed and implemented a risk assessment of grantees. However, of those State commissions and National Direct grantees identified by the risk assessment process as high risk, the Corporation conducted very few monitoring visits. Further, we believe that improvements need to be made to the risk assessment process to adequately document both the criteria used in assessing risk, as well as the steps performed to reach conclusions on the level of risk. This lack of criteria for performing risk assessments contributed to a number of instances where different program officers conducted assessments inconsistently. The Senior Corps program officers increased their site visits substantially by conducting site visits of nearly all grantees during Fiscal Year 2004. However,

there was a lack of adequate documentation as to the scope of testing and specific procedures performed by Senior Corps program officers in reaching their conclusions.

## **Recommendations**

We recommend that:

- The Corporation's risk assessment should be based on consistently implemented criteria. The assessment should include the reasons justifying a risk rating and how the conclusion was reached. Documentation to support each risk assessment should be maintained to prevent the loss of institutional knowledge.
- After completion of the assessment tool, any further discussion by Corporation management, regarding the selection and prioritization of AmeriCorps\*State grantees for monitoring visits should be adequately documented.
- The Corporation should prioritize monitoring visits based on a risk-based selection process, maintain a site visit travel schedule based on risk, and monitor progress made in completing these visits.
- The Corporation should develop monitoring policies to document what constitutes an acceptable, substantive review of grantees, in lieu of performing site visits. These activities include, but are not limited to, desk reviews, technical assistance, training, OIG reviews and audits, grantee audits, and other relevant monitoring activities performed by grant managers, program offices, the OIG, and external contractors.
- The Corporation should improve coordination between grant managers, program offices, and the OIG. The Corporation has created a new position of Director of Grants Oversight and Monitoring, which should be filled as soon as possible. The Director of Grants Oversight and Monitoring should establish consistent policies and procedures across Corporation programs and coordinate all monitoring efforts.

**Exhibit 2**  
**Status of Prior-Year Reportable Conditions**  
**September 30, 2004**

<b>FY 2003 Finding</b>	<b>Type</b>	<b>FY 2004 Status</b>
Monitoring of Grantee Activities	2001: Reportable Condition 2002: Reportable Condition 2003: Reportable Condition	Monitoring of grantee activities continues to be a reportable condition.

# COTTON & COMPANY LLP

auditors ♦ advisors

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Inspector General  
Board of Directors  
Corporation for National and Community Service

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance that the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This audit was performed pursuant to the Government Corporation Control Act, and is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, the Corporation, and the Inspector General. It is not intended for, and should not be used by, anyone other than these specific parties.

COTTON & COMPANY LLP



Alan Rosenthal, CPA  
Partner

October 29, 2004  
Alexandria, Virginia

## **APPENDIX A**

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**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE**



Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** ★★ ★

November 5, 2004

The Honorable J. Russell George  
Inspector General  
Corporation for National  
and Community Service  
Suite 830  
Washington, DC 20525

Dear Mr. George:

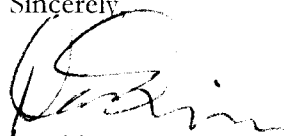
Thank you for the opportunity to comment on the draft report on the audit of the Corporation's fiscal 2004 financial statements. I am pleased that the Corporation continues to receive a clean opinion on its financial statements. These results demonstrate the Corporation's commitment to sound financial management and reflect the result of the hard work by staff to improve the Corporation's operations.

I am also pleased that the audit noted that the Corporation's program offices have taken positive steps to address prior audit recommendations including developing and implementing a risk based approach to grantee monitoring. The fiscal 2004 audit makes several recommendations to further improve the monitoring of grantees. The Corporation agrees with these recommendations and will implement them over the course of the next year.

The Corporation is committed to improving and strengthening its oversight of grantees. To oversee this effort the Corporation has established a new position, Director of Oversight and Monitoring. The Director will be responsible for coordinating grantee monitoring and oversight across all program streams. In addition, the Corporation established an Award Oversight and Monitoring Council comprised of senior staff to ensure that the Corporation exercises uniformly excellent financial, administrative and programmatic award oversight and supports grantee success through effective compliance monitoring and training and technical assistance. The initial tasks of the Council are to assist in the hiring of the new Director and develop the fiscal 2005 oversight and monitoring plan. These tasks will be informed by the recommendations in the audit report.

I would also like to express my appreciation for the efforts that your staff and the staff of Cotton & Company made on the fiscal 2004 audit. Without this collaborative effort we would not have been able to achieve the expedited deadline for completing the audit.

Sincerely,



David Eisner  
Chief Executive Officer



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